

**REPORT OF THE AUDIT OF THE
SCOTT COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES**

April 24, 2002



EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
SCOTT COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES**

April 24, 2002

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2001 Taxes for Scott County Sheriff as of April 24, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$12,978,539 for the districts for 2001 taxes, retaining commissions of \$460,443 to operate the Sheriff's office. The Sheriff distributed taxes of \$12,446,285 to the districts for 2001 Taxes. Taxes of \$7,211 are due to the districts from the Sheriff and refunds of \$209 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Should Have A Written Agreement To Protect Deposits
- Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds; however, the Sheriff did not have a written agreement with the financial institution to protect those deposits.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2001 TAXES	3
NOTES TO FINANCIAL STATEMENTS	5
COMMENTS AND RECOMMENDATIONS	9
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	13



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable George Lusby, Scott County Judge/Executive
Honorable Bobby Hammons, Scott County Sheriff
Members of the Scott County Fiscal Court

Independent Auditor's Report

We have audited the Scott County Sheriff's Settlement - 2001 Taxes as of April 24, 2002. This tax settlement is the responsibility of the Scott County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Scott County Sheriff's taxes charged, credited, and paid as of April 24, 2002, in conformity with the modified cash basis of accounting.



To the People of Kentucky
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Honorable Bobby Hammons, Scott County Sheriff
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In accordance with Government Auditing Standards, we have also issued our report dated April 30, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Have A Written Agreement To Protect Deposits
- Lacks Adequate Segregation Of Duties

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
April 30, 2003

SCOTT COUNTY
BOBBY HAMMONS, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2001 TAXES
April 24, 2002

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,140,424	\$ 1,815,040	\$ 5,737,813	\$ 2,267,503
Tangible Personal Property	135,732	155,288	436,900	589,679
Intangible Personal Property				492,963
Bank Shares	7,713			
Taxes Increased Through				
Erroneous Assessments	360	438	1,261	1,400
Franchise Corporation	81,422	104,425	307,900	
Additional Billings	2,684	3,709	11,178	7,055
Limestone, Sand, and Mineral Reserves	317	505	1,595	608
Penalties	8,468	13,304	41,845	20,223
Adjusted to Sheriff's Receipt	951	19,568	(3,568)	(1)
Gross Chargeable to Sheriff	<u>\$ 1,378,071</u>	<u>\$ 2,112,277</u>	<u>\$ 6,534,924</u>	<u>\$ 3,379,430</u>
<u>Credits</u>				
Exonerations	\$ 3,606	\$ 5,533	\$ 17,297	\$ 13,021
Discounts	20,882	32,263	99,841	55,823
Delinquents:				
Real Estate	16,276	25,904	81,840	31,177
Tangible Personal Property	2,879	2,596	7,305	4,645
Intangible Personal Property				371
Uncollected Franchise	776	1,017	3,111	
Total Credits	<u>\$ 44,419</u>	<u>\$ 67,313</u>	<u>\$ 209,394</u>	<u>\$ 105,037</u>
Taxes Collected	\$ 1,333,652	\$ 2,044,964	\$ 6,325,530	\$ 3,274,393
Less: Commissions *	<u>56,968</u>	<u>86,911</u>	<u>177,115</u>	<u>139,449</u>
Taxes Due	\$ 1,276,684	\$ 1,958,053	\$ 6,148,415	\$ 3,134,944
Taxes Paid	1,268,092	1,946,362	6,116,503	3,115,328
Refunds (Current and Prior Year)	<u>8,801</u>	<u>10,234</u>	<u>30,049</u>	<u>15,725</u>
Due Districts or (Refund Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (209)</u>	<u>\$ 1,457</u>	<u>\$ 1,863</u>	<u>\$ 3,891</u>

* and * see next page.

The accompanying notes are an integral part of the financial statement.

SCOTT COUNTY
BOBBY HAMMONS, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2001 TAXES
April 24, 2002
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	6,643,009
2.8% on	\$	6,325,530

** Special Taxing Districts:

Library District	\$	824
Health District		489
Extension District		<u>144</u>

Due Districts or (Refunds Due Sheriff)	\$	<u><u>1,457</u></u>
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SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS

April 24, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral, and the depository institution's board of directors or loan committee approved the pledge or provision. However, the depository institution did not have a written agreement with the Sheriff securing the Sheriff's interest in the collateral.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
April 24, 2002
(Continued)

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2001. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 30, 2001, through April 24, 2002.

Note 4. Interest Income

The Scott County Sheriff earned \$19,193 as interest income on 2001 taxes. The Sheriff distributed the appropriate amounts throughout the tax year to the school district as required by statute, and the remainder was paid to the Sheriff's fee account to be used to operate the Sheriff's office. As of April 24, 2002, the Sheriff owes \$302 in interest to the school district and \$901 in interest to his fee account for additional interest earned on the tax account after the tax sale date.

Note 5. Sheriff's 10% Add-On Fee

The Scott County Sheriff collected \$52,581 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of April 24, 2002, the Sheriff owes \$52,581 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Scott County Sheriff collected \$810 of advertising costs and \$2,595 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). As of April 24, 2002, the Sheriff owes \$810 in advertising costs to the county and \$645 in advertising fees to his fee account.

COMMENTS AND RECOMMENDATIONS

SCOTT COUNTY
BOBBY HAMMONS, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

As of April 24, 2002

STATE LAWS AND REGULATIONS:

The Sheriff Should Have A Written Agreement to Protect Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of April 24, 2002, the Sheriff had bank deposits of \$211,348.59; FDIC insurance of \$100,000; and collateral pledged or provided of \$1,102,397.32. Even though the Sheriff obtained sufficient collateral of \$1,102,397.32, there was no written agreement between the Sheriff and the depository institution, signed by both parties, securing the Sheriff's interest in the collateral. We recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee and, (c) an official record of the depository institution.

Sheriff's Response:

This will be done in the future.

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition under standards established by the American Institute of Certified Public Accountants. Due to the entity's diversity of official operations, small size, and budget restrictions the official has limited options for establishing an adequate segregation of duties. Management has considered and rejected additional cost when setting budget limits on spending for salaries and therefore accepts the degree of risk for a lack of an adequate segregation of duties. Therefore the Auditor of Public Accounts has judged the lack of an adequate segregation of duties as a reportable condition and a material weakness.

SCOTT COUNTY
BOBBY HAMMONS, SHERIFF
COMMENTS AND RECOMMENDATIONS
April 24, 2002
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:
(Continued)

Lacks Adequate Segregation Of Duties (Continued)

Because of the limitations of the Sheriff's office it appears that only compensating controls may achieve a proper segregation of duties. Compensating controls require the Sheriff's direct supervision over receipts and disbursements and includes but, is not limited to the following:

- 1) Cash periodically recounted and deposited by the Sheriff.
- 2) Surprise cash counts by the Sheriff.
- 3) Periodic reconciliation by the Sheriff of other monthly reports to source documents and receipts and disbursement ledgers.
- 4) Requiring dual signatures on checks with one being that of the Sheriff.
- 5) The Sheriff's review of payroll checks prepared by another employee and distribution of checks to employees.
- 6) Examination by the Sheriff of other disbursements checks prepared by another employee.
- 7) The Sheriff mailing or delivering disbursements.
- 8) Cross-training employees.
- 9) Requiring mandatory vacations for employees.
- 10) Bank reconciliations prepared or reviewed by the Sheriff.
- 11) Publishing financial statements.

These compensating controls should be documented if adopted.

Sheriff's Response:

We have a new employee starting May 5, 2003, to work with taxes and daily fees. The Sheriff also stated that he does perform steps 4 through 7 above.

PRIOR YEAR:

- 1) The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$1,245,582 And Enter Into A Written Agreement To Protect Deposits - Pledges were adequate for 2001 tax year, however as described in current year comment, no written agreement existed for the 2001 tax year.
- 2) Lacks Adequate Segregation Of Duties - This has not been corrected and is repeated in the current year report
- 3) The Sheriff Should Reconcile Tax Collection Records At The End Of Each Month - This has been corrected

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Scott County Sheriff's Settlement - 2001 Taxes as of April 24, 2002, and have issued our report thereon dated April 30, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Scott County Sheriff's Settlement - 2001 Taxes as of April 24, 2002 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Have A Written Agreement To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Scott County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above, is considered to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
April 30, 2003

